



Public Employees
Retirement Association
of New Mexico

EnnisKnupp Recommendations: Progress Report by the Public Employees Retirement Association

Investments Oversight Committee

July 2, 2010

Presented by

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Recent Reforms to Board Governance

□ **BOARD TRAINING**

- ✓ The PERA Board participated in a 3-hour training session as part of their annual retreat. Training topics and discussions included:

Who is a fiduciary?

- * Named fiduciary
- * Deemed fiduciary – one who exercises discretionary control over plan assets and provides investment advice for compensation.

How to comply with fiduciary responsibility?

- * Establish and document prudent processes
- * Follow established processes



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Recent Reforms to Board Governance

□ BOARD TRAINING

What are fiduciary duties?

- * Duty of loyalty
- * Duty to act in a prudent manner
- * Duty to diversify plan assets
- * Duty to follow plan documents

Failure to comply with fiduciary duties is a fiduciary breach

Recent Reforms to Investment Policy and Investment Operations

□ INVESTMENT POLICY REVISION

Staff and consultants began redraft November 2009. Board began review and revisions February 2010. Board approved final policy June 2010.

Preliminary revisions include:

- * Enhanced presentation format based on best practices
- * Modified asset allocation
- * Removal of tactical allocation plan
- * Removal of content describing procedures
- * Addition of detailed section of External Investment Management
- * Expanded reporting requirements
- * Requirement for placement of agent disclosure
- * Addition of appendices and glossary
- * Incorporation of EnnisKnupp recommendations

Recent Reforms to Investment Policy and Investment Operations

□ ASSET ALLOCATION

**Decrease Equities*

From: 60% (35% domestic / 25% international)

To: 54% (27% domestic / 27% international)

** Increase Fixed Income from 25% to 26%*

** Increase Alternative Assets from 15% to 20%*

Sub-asset class allocations:

From: 5% Hedge Funds, 5% Private Equity, 2.5% Real Estate, 2.5% Real Assets

To: 9% Hedge Funds, 5% Private Equity, 3% Real Estate, 3% Real Assets

Recent Reforms to Investment Policy and Investment Operations

□ ASSET ALLOCATION

**Increase Target Return from 7.6% to 7.66%*

**Reduce Standard Deviation from 11.98% to 11.63%*

** Improve Sharpe Ratio from .34 to .36*

** The assumed 8% long-term return will be achieved with 0.34% alpha from active management.*

** Asset Class Structure Studies (ongoing for 2010)*

- Consolidate passive mandates to single passive policy benchmark mandate. Large cap will be the Russell 1000 and small/mid caps will be the Russell 2500.
- Rebalance asset classes by style, enhance asset classes with active management where most effective (small/mid cap value/growth and large cap growth).

EnnisKnupp Recommendations

- **PERA is in agreement with, and considering implementing, 42 out of the 49 EnnisKnupp recommendations specific to PERA.**

PERA will take no action on the following EnnisKnupp recommendations:

#7 – Evaluate whether an ex-officio member should be allowed to designate a specific person to attend, participate and vote at meetings. **PERA response:** previously addressed by the Board with agreement to follow statute.

#13 – Consider the value of adding outside non-voting experts to serve on the Investment Committee. **PERA response:** Role of expert is designated to staff and consultants.

#26 – Set a date for achieving the target allocations for all asset classes. **PERA response:** Setting a firm date is unrealistic due to changing market conditions and/or Board actions to modify allocation targets. Traditional asset classes met their targets briefly in April 2010 and it is expected that alternative asset classes will reach their targets by 2012-2013.

EnnisKnupp Recommendations

PERA will take no action on the following EnnisKnupp recommendations:

#33 – Ensure the excess return target of 50 basis points is in line with the tracking and active risk levels of the portfolio. **PERA response:** This excess return target is assigned for purposes of performance-based budgeting and the PERA strategic plan. The intent of active investment management within PERA’s portfolio is to provide excess returns to achieve the actuarial-assumed target rate of return. The target excess return is re-defined annually based on recent market conditions and the economic outlook.

#35 – Reevaluate the allocation to underperforming active fixed income and equity managers. **PERA response:** PERA staff and consultants continuously monitor active manager performance against the Watch List criteria in the Investment Policy and present recommendations to the Board as necessary.

EnnisKnupp Recommendations

PERA will take no action on the following EnnisKnupp recommendations:

#36 – Evaluate the costs and benefits of managing a portion of the assets internally. **PERA response:** Budget, staffing and infrastructure constraints make this option unrealistic.

#48 – Delegate the responsibility of tracing placement-agent usage and fees to an independent contractor. **PERA response:** PERA's alternative-asset consultant already tracks and discloses placement-agent usage regarding alternative assets. Additionally, PERA requires disclosure of placement-agent usage with every response for traditional assets.

2010 Legislation Enacted

HB 16 – Beneficiary Change for Retirees

A PERA retiree who named a living beneficiary other than the spouse or former spouse at the time of retirement now has the one-time option to change their beneficiary or opt to receive a higher benefit.

SB 207 – Restrict Return to Work Opportunities for PERA Retirees

PERA Retirees hired after July 1, 2010 will have to suspend their pensions to return to work for a PERA affiliate, with the exception of elected officials and legislative workers during the legislative session. Current double dippers were grandfathered in for the remainder of their employment. Double dippers must pay their employee contribution effective July 1, 2010.



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Questions?
